

**South Dakota Department of Labor and Regulation
Division of Banking**

IN THE MATTER OF:

Order No. 2017-01

OCWEN LOAN SERVICING, LLC
NMLS No. 1852
1661 Worthington Rd., Suite 100
West Palm Beach, FL 33409

The Director of the South Dakota Division of Banking (“Division”), having determined that Ocwen Financial Corporation has engaged in, or is engaging in, or is about to engage in, acts or practices constituting violations of state and federal law and applicable regulations, hereby issues the following FINDINGS OF FACT, CONCLUSIONS OF LAW, and ORDER CONDITIONING LICENSE.

A. PARTIES, JURISDICTION, AND VENUE

1. Ocwen Financial Corporation (“OFC”) is a Florida corporation with headquarters in West Palm Beach, Florida. Ocwen Mortgage Servicing, Inc. (“OMS”) is a U.S. Virgin Islands corporation with headquarters in St. Croix, U.S. Virgin Islands and an NMLS unique identifier of 1089752. Ocwen Loan Servicing, LLC (“OLS”) is a Delaware limited liability company with headquarters located in West Palm Beach, Florida and an NMLS unique identifier of 1852. OLS at all relevant times herein was a wholly-owned subsidiary of OMS, which was a wholly-owned subsidiary of OFC (collectively referred to herein as “Ocwen”).
2. Ocwen, and certain of its subsidiaries, are licensed by the Director as mortgage lenders under SDCL Chapter 54-14.

3. The Division has jurisdiction over the licensing and regulation of persons and entities engaged in the business of residential mortgage loan servicing in South Dakota pursuant to SDCL 51A-2-1, SDCL Chapter 54-14, and its implementing rules at ARSD 20:07:19 *et seq.*
4. Pursuant to SDCL 54-14-26 and ARSD 20:07:19:09, the Division is authorized to inspect the books, accounts, papers, records, and files of mortgage lenders, transacting business in South Dakota to determine compliance with the provisions of SDCL Chapter 54-14, and any rule, or regulation issued thereunder, and with any law, rule, or regulation applicable to the conduct of the licensed business.
5. The Multi-State Mortgage Committee (“MMC”) is a committee of state mortgage regulators who have agreed to address their enforcement concerns with Ocwen in a collective and coordinated manner. On February 28, 2015, the states of Florida, Maryland, Massachusetts, Mississippi, Montana, and Washington (collectively, the “Examining States”) conducted a Multi-State Examination of Ocwen in order to determine Ocwen’s compliance with applicable federal and state laws and regulations, financial condition, and control and supervision of the licensed mortgage servicing operations. The Multi-State Examination of Ocwen covered the period of January 1, 2013 to February 28, 2015.

B. FINDINGS OF FACT

6. A mortgage servicer is entrusted with borrower’s mortgage payments. It is responsible for accepting, timely crediting, and keeping an accurate accounting of all borrower mortgage payments. Mortgage payments must be properly applied to insurance, taxes, interest, principle, and late fees, if any. The servicer must pay borrower taxes and insurance as they become due. The servicer must ensure that the proper amount of interest and principal is paid to the note holder. The servicer must maintain accurate records of all borrower payments and must annually

calculate the proper amount that should be held in escrow to cover the upcoming year's tax and insurance payments.

7. A mortgage borrower has no choice in the entity that services their mortgage loan. The borrower has no ability to change mortgage servicers. Mortgage borrowers are simply notified that their mortgage servicing rights have been transferred and are instructed to direct their payments to a new entity.

8. During the examination, the Examining States identified several violations of state and federal law, including, but not limited to, mismanagement of borrower escrow accounts, which resulted in failure to timely pay escrow items, the failure to correctly maintain escrow account minimum balances, and the failure to correctly estimate escrow disbursement amounts. Additionally, it was determined that Ocwen's financial condition was significantly deteriorating, which impacts Ocwen's ability to remain in business.

9. The MMC examination found that Ocwen has been unable to accurately manage many of the borrower escrow accounts in its portfolio due to failings of its software and systemic errors made when the escrow accounts were initially transferred to Ocwen. The MMC examination further found that Ocwen failed to make timely disbursements to pay for taxes and insurance from escrow accounts on numerous loans. The MMC examination also found that Ocwen routinely sent borrowers inaccurate, confusing, and/or misleading escrow statements. To date, the Division has received three complaints from residents of South Dakota against Ocwen and its mortgage loan servicing practices. All three complaints related to consumer escrow accounts.

10. Ocwen lost \$472 million in 2014, \$247 million in 2015, and \$200 million in 2016. Ocwen's losses stem from declines in loan servicing income and continued high operating costs. In 2015, Ocwen sold the servicing rights to loans totaling approximately \$88 billion. Although the sale

provided significant liquidity that Ocwen primarily used to reduce debt, the sale significantly reduced income and contributed to ongoing losses that have eroded capital. Ocwen's operating costs have been high due to the costs of operating deficiencies related to servicing acquisition integrations, regulatory fines, industry litigation, and ongoing monitoring required by regulatory settlements.

11. Ocwen's liquidity remains less than satisfactory due to uncertainty surrounding Ocwen's ability to maintain and refinance borrowing facilities at competitive rates in light of Ocwen's deteriorating financial condition.

12. Since 2014, Ocwen has lost a total of \$919 million and when combined with \$320 million in stock repurchases, capital has been reduced by \$1.15 billion, or 63 percent. Additionally, Ocwen's stock value has declined from a high of \$59.97 on October 25, 2013 to a range of \$1.50 to \$7 dollars per share in 2016, which has impeded Ocwen's ability to raise additional capital.

13. Based on the findings of the examination and subsequent communications with OFC, the state regulators and Ocwen entered into a Memorandum of Understanding (MOU) on December 7, 2016.

14. The MOU required Ocwen to retain an independent auditing firm to perform a comprehensive audit and reconciliation of all borrower escrow accounts, with a report to be furnished by the auditor to Ocwen and the MMC within five business days thereafter. The audit plan was to be submitted to the MMC no later than January 13, 2017 for its approval.

15. Ocwen's auditor's response to the state regulators on January 13, 2017, was that the audit and reconciliation of escrow accounts, which is paramount to ensuring the appropriate management of borrower funds, would cost \$1.5 billion and was well beyond Ocwen's financial capacity. Ocwen has suggested instead that a sample of 457 escrow accounts be audited out of

2.5 million active first lien escrow accounts that Ocwen has serviced since January 2013. This proposal could leave a vast number of borrowers with unaudited and/or inaccurate escrow accounts.

16. The total number of South Dakota loans currently serviced by Ocwen is 876 out of a total of 1,391,077 loans serviced as of December 31, 2016. Clearly, Ocwen can, and must, devote the resources necessary to audit and ensure the accuracy of all South Dakota mortgage accounts that have been serviced in any way by Ocwen since January 1, 2013.

17. The MOU required Ocwen to provide, among other things, a viable going forward business plan that encompassed an analysis of its future financial condition. The purpose of the plan was to analyze Ocwen's future financial condition incorporating and encompassing all known or reasonably certain liabilities.

18. Ocwen's going forward plan submitted in response to the MOU did not provide a complete assessment of its financial condition because it excluded significant liabilities. If the going forward plan accurately accounted for known or anticipated regulatory penalties and other operational costs, including, but not limited to, the expenses of moving to a new servicing platform and complete reconciliation of borrower escrow accounts with restitution to impacted borrowers, it would indicate the company would not continue as a going concern.

19. Ocwen has an extensive history of serious mismanagement of borrower escrow accounts resulting in significant risk of harm to South Dakota borrowers who have no ability to avoid the harm.

C. CONCLUSIONS OF LAW

20. Based upon the information contained in Paragraphs 1 through 19, the Director has determined that:

- a) The South Dakota Division of Banking has jurisdiction in this matter.
- b) Pursuant to SDCL 54-14-27, the Director may condition, deny, decline to renew, suspend for a period not to exceed six months, or revoke South Dakota mortgage lender licenses.
- c) Ocwen does not possess the competence, experience, character, or general fitness required to permit Ocwen to continue to acquire new business as a mortgage lender in South Dakota as provided in SDCL 54-14-27(5).
- d) The public interest will be irreparably harmed if Ocwen's mortgage lending license is not conditioned immediately.
- e) The public welfare requires immediate action to condition Ocwen's mortgage lender license.
- f) There is good cause to immediately condition Ocwen's mortgage lender license.

ORDER CONDITIONING LICENSE

IT IS HEREBY ORDERED that:

Ocwen shall immediately cease acquiring new mortgage servicing rights, and acquiring or originating new residential mortgages serviced by Ocwen, until Ocwen can show it is a going concern by providing a financial analysis that encompasses all of the liabilities Ocwen currently maintains, as well as liabilities it has knowledge it will incur in the course of its business;

Ocwen shall immediately cease from acquiring new mortgage servicing rights, and acquiring or originating new residential mortgages serviced by Ocwen, until Ocwen can provide a third party audit of its South Dakota escrow accounts showing that borrower funds are appropriately collected, properly calculated, and disbursed accurately and timely; and make any and all corrections of whatever type necessary to remedy all mistakes, errors, and improprieties occurring due to Ocwen's actions; and

Ocwen shall immediately cease any and all foreclosures in the state of South Dakota until all South Dakota escrow accounts have been correctly and properly balanced and all corrections due to mismanagement of the escrow accounts have been effected.

This Order is effective immediately upon signing and shall remain in effect unless set aside, limited, or suspended by the Division or upon court order after review under South Dakota law.

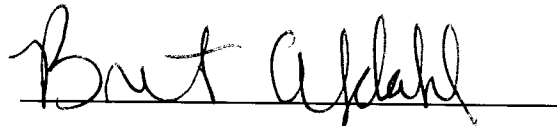
This Order shall not be construed as approving any act, practice, or conduct not specifically set forth herein which was, is, or may be in violation of relevant state or federal laws and regulations.

NOTICE

Ocwen, may, within thirty days after notice of this order has been mailed, file with the Division a written request for a hearing in accordance with the provisions of SDCL Chapter 1-26.

The Division will post a copy of this order to the NMLS under regulatory actions, which will be viewable by regulators and the public.

DATED 04/20/2017

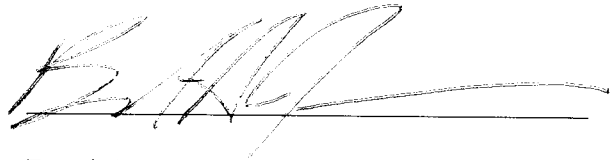
A handwritten signature in black ink that reads "Bret Afdahl". The signature is written in a cursive style and is positioned above a solid horizontal line.

Bret Afdahl
Director
Division of Banking

CERTIFICATE OF SERVICE

Brock Jensen, Legal Counsel to the South Dakota Division of Banking, does hereby certify that he served by mail a true copy of the DIVISION ORDER CONDITIONING LICENSE on Timothy Hayes, General Counsel, Ocwen Loan Servicing, LLC, 1661 Worthington Road, Suite 100, West Palm Beach, FL 33409, and CT Corporation System, Registered Agent for Service of Process in South Dakota for Ocwen Loan Servicing, LLC, 319 S. Coteau St., Pierre, SD 57501, properly addressed, postage prepaid, by mailing first class United States mail at the United States Post Office, Pierre, South Dakota. The following individuals were also served via electronic delivery: Phyllis R. Caldwell, Chair of the Board of Ocwen Loan Servicing, LLC, C/O Timothy Hayes, General Counsel timothy.hayes@ocwen.com, Robert A. Salcetti, Vice Chair of Board of Ocwen Loan Servicing, LLC, C/O Timothy Hayes, General Counsel timothy.hayes@ocwen.com, Ronald M. Faris, President of Ocwen Loan Servicing, LLC, Ronald.faris@ocwen.com, and Timothy Hayes, General Counsel of Ocwen Loan Servicing, LLC, timothy.hayes@ocwen.com.

Dated and mailed this 20th day of April, 2017.



Brock Jensen
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